

Weekly Market Summary



August 28, 2020

Highlights

- GDP contracted by -6.1% in Q2'2020
- Nigerian equities gain 0.35% w-o-w
- US Fed reviews monetary policy strategy amid new economic challenges

Economic Data	28-08-20	21-08-20	Change	YTD
NSEASI	25,309.37	25,221.87	0.35%	-5.71%
NSELII	1,839.54	1,832.03	0.41%	0.26%
Market Cap (₦'bn)	13,203.66	13,158.01	0.35%	1.89%
Official Exchange Rate (₦/\$)	381.00	381.00	0.00%	24.10%
Oil Prices (\$'pb)	45.81	44.35	3.29%	-30.59%
External Reserves (\$'bn)	35.66	35.60	0.17%	-7.59%
LC Managed Funds				
Halal Investment Fund (₦)	1.26	1.26	0.00%	7.08%
Halal Fixed Income Fund (₦)	1,131.77	1,130.07	0.15%	6.90%
Lotus Halal Equity ETF (₦)	9.11	9.08	0.31%	4.03%

NIGERIAN MARKET UPDATE

GDP contracts by -6.1% in Q2'2020

Data released by the Nigerian Bureau of Statistics showed that the Nigerian economy contracted by -6.1% y-o-y in Q2'2020 (Q2'2019: 2.12%). This steep contraction was largely occasioned by economic disruption caused by the coronavirus pandemic.

Oil sector output declined by -6.63% y-o-y as average daily production fell to 1.81mbpd, this is an indicative of the partial compliance with OPEC's production cut. In the non-oil sector, output dropped by -6.05% as many businesses were adversely affected by the lockdown. In particular, there were sharp declines in output from the Transportation (-49.2%), Construction (-31.8%) and Real Estate (-22%) sectors, which masked the growth of the Agriculture (1.6%), ICT (15.1%) and Financial Services (18.5%) sectors during the period.

Although most businesses reopened in the third quarter, education, transportation, hospitality, retail and other service industries are not back in full swing. In addition, some business activities remain subdued by foreign exchange shortages and weak infrastructure. Consequently, we expect further economic contraction in the third quarter.

Capital Inflows decline by -78.6% in Q2'2020

According to the Nigerian Bureau of Statistics, capital inflows plunged by -78.6% y-o-y to \$1.29billion in Q2'2020 (Q2'2019: \$6.05billion), which is the lowest level since Q1'2017. Foreign Direct Investment was a meagre 11.47%, while portfolio investment accounted for 29.8% of the total inflow. The balance of 58.77% was made up of other investments. The United Kingdom brought in the largest amount of capital into the country at \$428.8million, followed by South Africa (\$149.3 million) and the UAE (\$145.2 million). With these economies currently being pressured by the pandemic, capital inflows may be adversely affected in the coming quarter.

Equities market posts sixth consecutive gains

The local bourse had another positive outing in the week under review and the NSEASI gained 0.35%, moderating its year-to-date loss to -5.71%.

Across sectors, the NSE's Insurance index led the gainers and was up by 2.80%. The Consumer Goods index rose by 1.12% following an appreciation in PZ Cussons Plc, while the Industrial Goods index gained by 0.64%. On the flip side, the Banking index dipped by -0.23%, while the Oil and Gas index closed the week flat.

The NSE Lotus Islamic Index outperformed the broad market and gained 0.41% to take its year to date performance to 0.26%.

Overnight rate climbs to 14.9%

At the money market this week, the overnight rate climbed to 14.9% (vs 2.6% last week) as the outflows from CRR, OMO and FX auction debits surpassed inflows from OMO maturities, FGN Bond coupons and FX auction refunds.

At the currency market, the CBN's official exchange rate was unchanged at N381/\$ and the naira was also stable at N477/\$ at the parallel market. However, at the I&E window, the naira strengthened to N385.67/\$ (last week: N386/\$).

GLOBAL MARKETS

US Fed reviews Monetary Policy strategy amid new economic challenges

In its bid to improve employment and price stability, the Jerome Powell led US Federal Reserve adopted a new 'consensus statement', which is to serve as the foundation for its monetary policy actions going forward.

The Fed's new statement expresses its strong commitment to economic growth and job creation. The Fed also disclosed its intention to adopt a flexible approach to inflation targeting and it is willing to periodically set policies that either drive inflation above or below its 2% target as long as the long-run average level is achieved.

The Fed believes that its new monetary policy strategy is better suited for the evolving US economy and would promote a stronger labour market for low and moderate-income communities.

In our view, the Fed's new stance should pave the way for more growth-oriented policies by relaxing the short-term concerns with inflation. Given the havoc caused by the pandemic, this monetary policy strategy could lead to a faster recovery for the US economy.

OUTLOOK

This week, we expect trading at the Nigerian equities market to be driven by investors' reaction to the Q2' 2020 GDP data and their expectations of recovery. In the currency space, the naira may come under increased pressure as the planned resumption of international flights would increase FX demand.

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Definitions:

Bpd:	Barrels per day
Bps:	Basis points
CPI:	Consumer Price Index
CBN:	Central Bank of Nigeria
CAPEX:	Capital Expenditure
DMO	Debt Management Office
DJIA	Dow Jones Industrial Average (US Equity Market)
FAAC:	Federation Account Allocation Committee
FGN:	Federal Government of Nigeria
FMDQ	Financial Markets Derivatives Quotation
I&E:	Investors & Exporters Window
MoM:	Month on Month
MPC	Monetary Policy Committee
MPR:	Monetary Policy Rate
NSEASI:	Nigerian Stock Exchange All-Share Index
NSEBNK	Nigerian Stock Exchange Banking Index
NSECNMRGDS:	Nigerian Stock Exchange Consumer Goods Index
NSELII:	Nigeria Stock Exchange Lotus Islamic Index
NSEIND:	Nigerian Stock Exchange Industrial Goods Index
NSEINS:	Nigerian Stock Exchange Insurance Index`
NSEOILGAS:	Nigerian Stock Exchange Oil and Gas Index
OMO:	Open Market Operations
OPEC:	Organization of Petroleum Exporting Countries
PMI:	Purchasing Managers Index
QoQ:	Quarter on Quarter
Sukuk:	Non-interest Bonds
WoW:	Week on Week
YoY:	Year on Year